



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Voluntary Report - public distribution

Date: 10/24/2002

GAIN Report #CA2126

Canada

Agricultural Situation

This Week in Canadian Agriculture, Issue 37 2002

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Report Highlights:

"What's New, Eh?" * Canada Ready to Defend CWB * Conference Held on U.S. Country of Origin Labeling & Changing Border Security * Canadian Cattlemen Warn on U.S. Country of Origin Labeling, Canadian Pork Industry Concerned * Canadian Fluid Milk Production up Slightly for 2002 * Vanclief Discusses Boosting Trade with Chile * Canada to Stay in Cairns Group * Hog Inventory Growth Slows * Market Development Funding for Seafood Industry * Unions and Management Meet over Vancouver Port Stoppage * Public Consultation on Possible Phase-Out of Generic Names for Wines and Spirits * Dairy Farmers Propose Fluid Milk Price Increase * Asian-Style Foods in the Canadian Market * an Overview of Selected Segments of the Canadian Frozen Food Industry

...and MORE!

Includes PSD changes: No
Includes Trade Matrix: No
Unscheduled Report
Ottawa [CA1], CA

This Week in Canadian Agriculture is a weekly review of Canadian agricultural industry developments of interest to the U.S. agricultural community. The issues summarized in this report cover a wide range of subject matter obtained from Canadian press reports, government press releases, and host country agricultural officials and representatives. Substantive issues and developments are generally also reported in detail in separate reports from this office.

Disclaimer: Any press report summaries in this report are included to bring U.S. readership closer to the pulse of Canadian developments in agriculture. In no way do the views and opinions of these sources reflect USDA's, the U.S. Embassy's, or any other U.S. Government agency's point of view or official policy.

CANADA READY TO DEFEND ITS WHEAT POLICIES AGAINST U.S. CHALLENGE: In an October 24 news release from the Canadian Department of Foreign Affairs and International Trade (DFAIT), the Government of Canada expressed its disappointment with the decision of the U.S. Department of Commerce to pursue investigations into Canadian wheat trade policies and the practices of the Canadian Wheat Board (CWB). "I relayed Canada's concerns regarding the requested investigations directly to U.S. Commerce Secretary Don Evans. I reiterated that Canada's wheat policies are fully consistent with our international agreements," said International Trade Minister Pierre Pettigrew. "We will work closely with our provincial colleagues and the Canadian Wheat Board to do what it takes to defend our wheat sector." Ralph Goodale, Minister Responsible for the Canadian Wheat Board said, "Trade is a two-way street. We will never relent from our defence of Canada's trade policies and practices, because we know they are consistent with our wheat trading agreement rights and obligations." Agriculture and Agri-Food Minister Lyle Vancilief remarked that, "The American agriculture sector must not be paying attention. Canada has turned back each and every U.S. investigation into the Canadian Wheat Board for alleged unfair subsidies or violations of trade agreements. Another investigation now is outrageous, especially as American producers are reaping the benefits of colossal government support." Canada's annual wheat shipments to the U.S. have ranged between C\$360 million and C\$460 million for the past three years.

CONFERENCE FOCUSED ON U.S. COUNTRY OF ORIGIN LABELING AND CHANGING BORDER SECURITY PROTOCOLS: Ontario's Ministry of Agriculture and Food partnered with Agriculture and Agri-Food Canada (AAFC) to hold a one-day conference in Toronto last week called "U.S. Regulations Affecting Agri-Food Trade: How Do We Keep the Borders Open?". Attended by several hundred delegates representing Canada's food industry, the meeting featured guest speakers from the USDA's Agricultural Marketing Service, the U.S. Embassy's Custom's Attaché, the National Food Processors Association (Washington, D.C.) and Canadian government and industry speakers. Ian Thompson, Director of Western Hemisphere Trade Policy Division, AAFC, claimed that Country of Origin Labeling (COOL) would rip apart the integrated North American meat and livestock market and set U.S./Canada meat and livestock trade back ten years. Thompson disclosed that AAFC is working with Canadian industry to ally U.S. national food industry associations and reduce support for the COOL provisions. He stated that the Canadian government is assessing its legal options with regard to COOL should it become necessary to challenge the regulation under NAFTA or the WTO. However, Thompson conceded that any legal challenge could not proceed until after the COOL regulations become final in September 2004. See related stories below.

CANADIAN CATTLEMEN'S MESSAGE ON COOL: "BE CAREFUL WHAT YOU WISH FOR...": Speaking at the conference on trade and border issues (see above), Dennis Laycraft, Exec. Director of the Canadian Cattlemen's Association (CCA) speculated that U.S. cattlemen got more than they bargained for under the U.S. Country of Origin Labeling (COOL) provisions as they apply to U.S. beef marketing. He believes that U.S. cattlemen will themselves have a difficult time complying with the COOL traceback requirements. While Laycraft also believes that the COOL provisions will hurt all North American red meat producers by sending negative messages to consumers, he claimed Canada's beef industry will suffer from reduced (two-way) live cattle trade with the U.S., (citing U.S. packer reluctance to comply with complex COOL auditing requirements) and lower cattle prices. He speculated that if major U.S. retailers adopt policies of handling U.S. beef only, that smaller independents may handle increased amounts of Canadian beef, especially if margin opportunities exist. He stated that the CCA is developing an accelerated marketing strategy to deal with COOL provisions and speculated that COOL impact will result in Canadian beef displacing U.S. beef in Mexico and Asia and in eastern Canada, the stronghold of U.S. beef sales to Canada. The CCA also intends to increase its efforts to export to U.S. foodservice customers, a sector that is exempt from COOL provisions. According to Laycraft, about 50% of Canada's current beef sales to the U.S. are to foodservice.

CANADIAN PORK INDUSTRY CONCERNED WITH COOL; STUDYING OPTIONS:

Martin Rice, Exec. Director of the Canadian Pork Council told delegates to the Toronto conference on trade and border issues last week (see above stories) that the U.S. COOL regulations will impose huge costs on the North American livestock and meat sector. While the expectation of the introduction of U.S. country of origin regulations initially sent a chill through the Canadian hog industry, Rice said that since the publication of the COOL voluntary guidelines his industry is studying whether Canadian pork could gain a premium in the U.S. market. He claimed that the industry has had discussions with major U.S. packers on the feasibility of devoting special times for the slaughter of Canadian origin hogs to simplify auditing and identification requirements. Rice believed that the additional costs of COOL would be passed down through the supply chain and result in lower producer prices for hogs throughout North America. He said the Canadian Pork Council was disturbed that the COOL regulation sends a signal to other countries to look for means to discourage imports. Rice said that the policy of the consumers right to know can be taken too far. He believes that the COOL regulation weakens the U.S. and the Canada position on GM labeling. Rice noted that the National Pork Producers Council is on record as opposing COOL.

CANADIAN FLUID MILK PRODUCTION UP SLIGHTLY FOR 2002: Total fluid milk production for calendar year is expected to be about 8.13 million metric tonnes (MMT), up slightly from calendar year 2001 production of 8.10 MMT. For 2003, post forecasts that fluid milk production will increase slightly over 2002 levels. Total cheese production for 2002 decreased by about two percent to 315,000 metric tonnes (MT). Total cheese production for 2003 is forecast to drop to 310,000 MT. Butter production for 2002 is expected to reach 90,000 MT. For 2003, butter production is forecast to decrease. Nonfat dry milk production for 2002 is expected reach 100,000 MT. For 2003, nonfat dry milk production is forecast to decrease to 90,000 MT. For more information, see the Dairy and Products Annual Report, GAIN CA2121.

VANCLIEF DISCUSSES BOOSTING TRADE WITH CHILE: According to an October 16 news release from Agriculture and Agri-Food Canada, Agriculture and Agri-Food Minister Lyle Vanclief met with Chilean Minister of Agriculture Jaime Campos to discuss agricultural trade between the two countries. During their meeting, Minister Campos confirmed his interest in negotiating a Memorandum of Understanding that would pave the way for exports of Canadian beef to Chile. Vanclief and Campos also discussed Canada's review of Chile's inspection system for pork and poultry. Vanclief indicated to Campos that Canada would soon be in a position to recognize Chilean inspection systems on poultry. The approval process for exports of pork from Chile to Canada is in the final stages and both Ministers instructed officials to finalize the remaining outstanding technical issues. Under the Canada-Chile Free Trade Agreement, a sanitary and phytosanitary committee will be formed. The committee will advance discussions on technical issues to ensure a smooth flow of trade between the two countries. Since 1997, when the Canada- Chile Free Trade Agreement was introduced, bilateral trade between Canada and Chile has increased 33% to C\$1.25 billion. Canada has also become the second largest investor in Chile, after the US. Between 1997 and 2001, total agricultural trade increased from C\$295 million to over C\$313 million. Canada's top export to Chile is durum wheat. With the advent of the free trade agreement, Canadian exports to Chile of pulses, pet food and canary seed have risen dramatically. Chile is Canada's second-largest supplier of fruits and nuts after the U.S. Last year, Canada imported over \$160 million worth of apples, nectarines, plums, kiwi, raspberries and cranberries, among other fruit.

CANADA WORKING WITH CAIRNS GROUP FOR AGRICULTURAL REFORM: In an October 21, 2002 news release, Agriculture and Agri-Food Minister Lyle Vanclief said that Canada and other members of the Cairns Group reaffirmed their determination to push for agricultural reform and establishment of a fair, market-oriented agricultural trading system.

"Cairns Group Ministers have said very clearly today they will continue pressing for the elimination of export subsidies, the maximum possible reduction in trade-distorting domestic support, as well as improved market access for all agriculture and food products," Mr. Vanclief said at the conclusion of the two-day during the 24th Cairns Group Ministerial meeting in Santa Cruz, Bolivia. Vanclief acknowledged Canadian farm representatives from the Canadian Agri-Food Trade Alliance (CAFTA) and the Canadian Federation of Agriculture (CFA) attending the Bolivia meeting and thanked them for their steadfast dedication to the interests of Canada's farmers. CAFTA is a national coalition of associations, organizations and companies representing a wide spectrum of crop and livestock producers, processors and exporters who support free trade in agri-food products and is an enthusiastic backer of Cairns Group proposals for real cuts in trade barriers. CAFTA president Liam McCreery, said, "We see the Cairns Group countries as important allies in helping to reduce market distortions."

GLOBAL WARMING WILL IMPACT CANADIAN AGRICULTURE SAYS REPORT: Canada's federal natural resource department, Natural Resources Canada, has released a 20 page report devoted to the impact of climate change on Canadian agriculture. The report is one chapter of a larger report entitled "*Climate Change Impacts and Adaptation: a Canadian Perspective*". While facing warming temperatures and more frequent droughts, the report says the major challenge to Canadian farmers is how they adapt to climate change. Although warmer temperatures, longer growing seasons

and elevated CO₂ concentrations are generally expected to benefit agriculture in Canada, factors such as reduced soil moisture, increased frequency of extreme climate events, soil degradation and pests have the potential to counteract, and potentially exceed these benefits. Some regions could experience net gains, while others may see net losses. Appropriate adaptations have the potential to greatly reduce the overall vulnerability of agriculture to climate change. These adaptations will require the participation of several different groups, including individual producers, government organizations, the agri-food industry and research institutions. The report notes that historically, the agricultural sector has proven itself to be highly adaptive to environmental and social changes, with a strong capacity to adapt in a responsive manner. For a full copy go to the Natural Resources Canada weblink at: <http://adaptation.nrcan.gc.ca/perspective.asp>

HOG INVENTORY GROWTH SLOWS: This week's release by Statistics Canada's of hog inventories on October 1, 2002 showed that while the total inventory was higher than a year earlier, growth in Canadian hog inventories continued to slow in the third quarter. Declines in hog prices and the increased cost of feed contributed to the slowdown. As well, a two-year moratorium on hog barn construction in Quebec (see CA2060), the leading producer in Canada, limited the expansion. Hog producers reported 14.7 million head on farms on October 1, up 2.3% from October 1, 2001. Average growth over the past five years for that period has been 5.0%. The number of hogs slaughtered in the third quarter was 5.5 million, up 7.8% from the third quarter of 2001. During the first nine months of 2002, the national slaughter reached a record 16.3 million hogs, up 6.6% from the same period of 2001. Farrowings rose 3.5% in the third quarter from the third quarter of 2001. The smaller increase in farrowings along with lower intentions for the fourth quarter (2.4%) indicate that the growth slowdown will continue.

MARKET DEVELOPMENT FUNDING FOR SEAFOOD INDUSTRY: This week, Agriculture and Agri-Food Canada (AAFC) announced it is offering C\$600,000 (\$378,000) to support Canada's seafood exporter's market development efforts. "As international markets become increasingly demanding, we must continue to ensure that Canada is recognized for its leadership in meeting consumer demands for safe, high quality, environmentally friendly food," said Minister Vancief. Funding comes from the Agricultural Policy Framework (APF), an integrated, long-term approach to national agriculture policy to help the Canadian agriculture and food sector better respond to increasing consumer demands and global competition. "The seafood sector is pleased to join other food exporters in Canada's market development programs," said Christina Burridge, Executive Director of the BC Food Alliance, and member of the Canadian Agri-Food Marketing Council. We export 85 per cent of our seafood and share many of the same challenges in selling to increasingly competitive global markets." Government of Canada responsibility for the fish and seafood industry is split between the Department of Fisheries and Oceans which regulates and manages the Canadian fishery, the Canadian Food Inspection Agency, and AAFC which provides export market-development support for a wide variety of Canada's food and beverage products, including fish and seafood. For more information on Canada's seafood industry, see the Fishery Products Annual, CA2118.

SNOW HALTS SASKATCHEWAN HARVEST IN MANY AREAS: Snow and below normal temperatures halted harvest progress in many areas, according to Saskatchewan Agriculture, Food and Rural Revitalization's latest weekly crop report. It is estimated that 14%, or almost five million acres, of

the 2002 crop remains to be harvested, compared to the five-year average (1997-2001) of two percent. Crop that was harvested this week required drying or aeration, which was difficult with the cool, damp weather. Harvest continues to be most advanced in southern areas where nine percent of the crop is yet to be harvested. Farmers in central areas have 15% of the crop left to harvest, while 21% of the crop remains in the northern areas. It is reported that spring wheat grade levels remain unchanged from last week. With 76% of the spring wheat harvested, seven percent of it is expected to grade No. 1 Canada Western (1 CW), 21% 2 CW, 38% 3 CW, and 34% Canada Feed. Weather limited fall field work last week, with farmers trying to proceed with fertilizer and chemical application, baling straw, hauling bales, and fall cultivation. Frost, wind, snow and rain caused crop damage last week. There were also reports of damage due to migratory birds feeding on unharvested crops.

ONTARIO WHEAT CROP ESTIMATED AT 2.0 MMT FOR 2002/03: According to the Ontario Wheat Producers' Marketing Board, wheat marketing and production in Ontario continues to evolve and change yearly. This year approximately 99% of intended acres have been planted and trade estimates have plantings close to 1 million acres. With an estimated yield of 2 tonne/acre this would produce a record crop of 2 million metric tonnes (MMT). The previous largest crop was 1.5 million tonne in 1999. Ontario usage of the 2003 crop will be 0.5 MMT and 1.5 MMT will have to be marketed outside the province. This means 1 MMT will be sold and shipped offshore to Mid-East countries. During the 2002 crop the board has had overwhelming success with the forward contracting program. For the 2001 crop, 25% of the deliveries to the board were marketed through the forward contracting program and 75% of the deliveries through the pooling system. In 2002 a dramatic shift occurred and 85% of deliveries to the board were forward contracted and 15% of deliveries were to the pool. To date there has been 16,200 contracts written for 816,000 metric tonnes for the 2002 crop. An expected total of 16,500 contracts for 850,000 tonne should be written by year-end. For the 2003 crop it is possible to reach 30,000 contracts for 1.7 MMT.

UNIONS AND MANAGEMENT MEET OVER VANCOUVER PORT STOPPAGE: According to the October 21 edition of *Agriline*, the latest developments in the Vancouver labor dispute included a meeting between union and management on the 21st in which the union submitted a new proposal. No details of the outcome are yet available. On the Port of Prince Rupert front, an appeal of a court injunction barring Vancouver workers from picketing at Prince Rupert will be heard on November 4. Prince Rupert management and the Grain Workers Union will meet with federal conciliators November 29 in an effort to re-start contract negotiations. Workers at both ports have been without contracts since December 2000.

PUBLIC CONSULTATION ON POSSIBLE PHASE-OUT OF GENERIC NAMES FOR WINES AND SPIRITS IN CANADA: Late last fall, Canada and the European Union (EU) began negotiations on a possible Canada-EU agreement on wines and spirits. Among other things, these negotiations concern the use and protection of geographical indications (GIs) in both jurisdictions. Thus, Canada is considering the possible removal of a list of twenty-two generic wine names and two generic spirit names (grappa and ouzo) contained in sections 11.18(3) and (4) of the Trade-marks Act. The list of generic wine names is comprised of the following: claret, bordeaux, chianti, madeira, malaga, marsala, medoc, médoc, moselle, mosel, tokay, burgundy, bourgogne, rhine, rhin, sauterne, sauternes,

champagne, port, porto, sherry and chablis. Because these names are currently considered generic under the Trade-marks Act, they cannot legally be protected in Canada as GIs, and may currently be used by Canadian wine and spirits producers and sellers. However, if Canada were to phase out the generic status of these wine and spirit names, the names would no longer be barred from registration as GIs in Canada. One of the result of a possible Canada-EU agreement could be to prevent the unauthorized sale or use of wines or spirits labeled with these GIs in the future. The Marketplace Framework Policy Branch of Industry Canada invites all interested persons to provide their views on this matter. The Consultation Paper on Possible Phase-out of Generic Names for Wines and Spirits (Geographical Indications) may be found on Industry Canada's website at: <http://www.strategis.ca.ca/SSG/ip01103e.html>. The final section of the consultation paper contains a number of Suggested Questions intended for wine producers, retailers and any other interested persons. Industry Canada is requesting written responses, comments or concerns on any aspect of the paper by Friday November 8, 2002.

DAIRY FARMERS PROPOSE FLUID MILK PRICE INCREASE: According to an article from the *Ontario Farmer*, the Canadian dairy industry is developing a philosophy of pricing milk off the retail value rather than just cost of production. Dairy farmers could get nearly a five percent raise on their fluid milk price under a proposal now being discussed by Eastern Canada's dairy pool. While the new pooling proposal is still being negotiated by the P6 pool members (Manitoba, Ontario, Quebec, P.E.I., New Brunswick and Nova Scotia), if approved as it currently stands, Ontario's dairy farmers could see an increase of C\$2.75 per hectoliter on fluid milk, effective February 1, 2003. For additional information, see GAIN report CA2123.

ASIAN-STYLE FOODS IN THE CANADIAN MARKET: Opportunities exist in the Canadian market for U.S. exporters of Asian-style food products. Canadians spend \$6 billion annually on Asian-style foods. Of Canada's 31.7 million population, an estimated 5% are of Asian origin and increasing by a compound annual rate of nearly 9% over the course of the last five years. For more information, see GAIN report CA2124.

AN OVERVIEW OF SELECTED SEGMENTS OF THE CANADIAN FROZEN FOOD INDUSTRY: In Canada, there is a demand for a greater variety of dinners/entrees, healthier foods, and innovations that enhance flavor and save time. In this context, opportunities exist for the introduction of new frozen food varieties that fit this profile. For more information, see GAIN report CA2125.

Did You Know ...that foodservice is one of Canada's largest and most dynamic industries. With annual sales of more than C\$42 billion (\$26 bil.), foodservice represents 4% of Canada's gross domestic product. Foodservice employs 978,7000 Canadians, or 6.5% of the workforce. (Source: Canadian Restaurant and Foodservices Association)

Recent Reports from FAS/Ottawa:

Report Number	Title of Report	Date
CA2125	Canadian Frozen Food Market	10/23/2002
CA2124	Asian Style Foods In The Canadian Market	10/23/2002
CA2123	Dairy Farmers Propose Fluid Milk Price Increase	10/22/2002
CA2121	Dairy and Products Annual Report	10/22/2002
CA2122	This Week in Canadian Agriculture, Issue 36	10/17/2002

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